



Office of Audit Services
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April 21, 2008

AGENDA ITEM 5

TO: MEMBERS OF THE FINANCE COMMITTEE

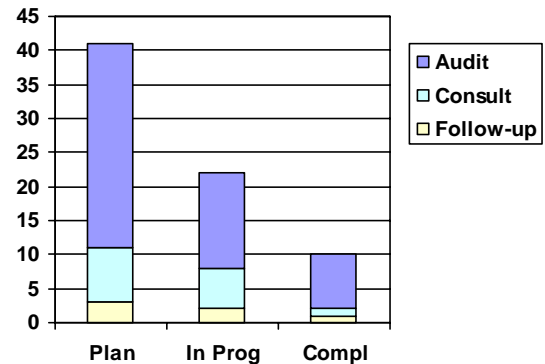
- I. **SUBJECT:** Quarterly Status Report
- II. **PROGRAM:** Audit Services
- III. **RECOMMENDATION:** Information only
- IV. **SUMMARY:**

In accordance with the Finance Committee's Audit Resolution Policy and Procedures, the Office of Audit Services presents its Quarterly Status Report of audit activity. The following provides the status of audits and special projects as of December 31, 2007.

1. Status of projects and activities in the Fiscal Year 2007 / 2008 Board approved annual Audit Plan

- A. Internal Audits – Internal audit projects and consulting assignments focus on compliance, and the effectiveness and efficiency of CalPERS operations, systems, policies, and procedures. Detail on these projects is provided on Attachment 1A.

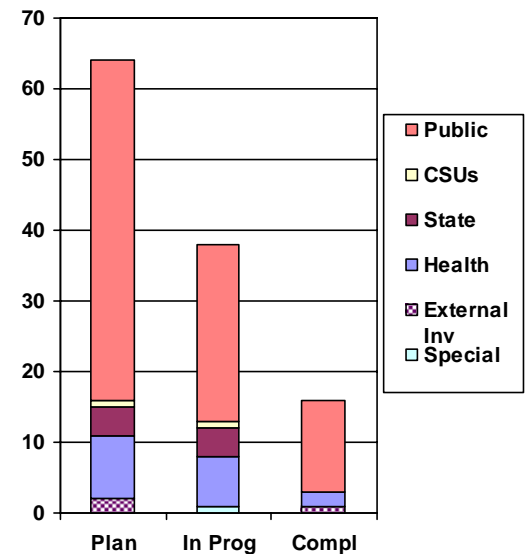
2007/08 Board Approved Audit Plan	Plan	In Progress	Complete
Audit Projects	30	14 ^A	8 ^A
Consulting Projects	8	6	1
Audit Follow-up	3	2	1



^A – Includes audits started in prior fiscal year as shown in Attachment 1A.

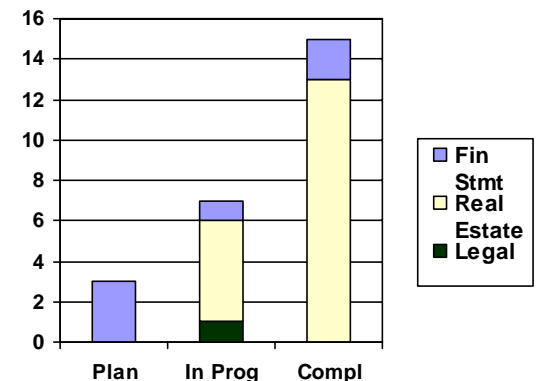
B. Field Audits and Reviews— Field audits and reviews include compliance reviews of employer entities belonging to the System, audits of health maintenance organizations contracting with the System, compliance audits of health care third-party administrators, and audits of external providers of investment-related services. Detail on these projects is provided on Attachment 1B.

2007/08 Board Approved Audit Plan	Plan	In Progress	Complete
Public Agency Reviews	48	25	13
California State Universities Reviews	1	1	0
State Agency Reviews	4	4	0
Health Plan Audits	9 ^A	7	2 ^A
External Investment Managers	2	0	1
Special Projects for PA	As requested	1	0



C. Contract Audits – Contract audits include audit work performed by external auditors. The number of real estate and legal fee audits is determined over the course of the fiscal year. Detail on these projects is provided on Attachment 1C.

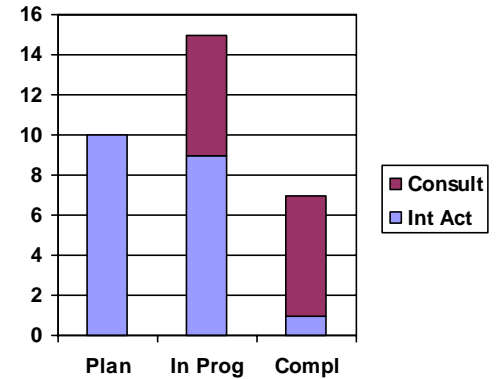
2007/08 Board Approved Contract Auditor	Plan	In Progress	Complete
Financial Statement Audits	3	1	2
Real Estate Audits	As requested	5	13
Legal Fee Audits	As requested	1	0



^A- Includes projects started in prior fiscal year as outlined in Attachment 1B.

D. Management Consulting Projects - In addition to the specific projects in the approved Audit Plan, during the year the Office of Audit Services responds to subsequent requests from the Board of Administration, Executive Management, and program divisions for audit and consulting projects. The approved Audit Plan includes an allocation of hours for these projects. Detail on these projects is provided in Attachment 1D.

Management Consulting Projects	Plan	In Progress	Complete
Management Consulting Projects	As requested	6	6
Office of Audit Services Internal Activities	10	9	1



3. Findings / Issues

During the first half of Fiscal Year 2007/08, we completed 13 reviews of contracting employer entities. The most frequently reported issues were incorrect reporting of compensation, payroll reporting errors, not properly enrolling eligible employees and not properly maintaining ACES security documents. The following table is a summary of the findings included in the audit reports issued during the first half of Fiscal Year 2007/08.

Type of Finding – FY 2007/08	Number of Agencies	Number of Findings
Compensation	9	26
Payroll reporting errors	11	18
Enrollment	7	11
ACES security documents	6	11
Health eligibility	6	11
Retirement contributions/payroll information not reported timely	4	5
Unused sick leave	5	5
Payrate reporting errors	2	3
Retired annuitants	2	2
Health payment not submitted timely	1	1

HIPAA-Related Findings

At the request of the Finance Committee, we have attached a special update on the resolution status of findings related to Health Insurance Portability and Accountability Act (HIPAA) reviews conducted by Office of Audit Services. The status of the findings our office reported in August 2004 and October 2006 is found in Attachment 2A of this agenda item.

Internal Audits

During the first half of Fiscal Year 2007/08, we completed eight internal audit projects. We reported on a wide variety of issues related to improvements to the internal control structure, particularly with emphasis on accounting reconciliations, receivables, information systems and security, and operational recovery planning.

Health Plan Audits

We completed two audits of health plan contract compliance during the first half of the Fiscal Year. The main issues identified in these audits include ensuring eligibility of enrollees, response times for appeals and determinations; ensuring training for staff and maintenance of training records, obtaining appropriate accreditations, and correct reporting and record-keeping regarding contractually-required performance measures.

Financial Statement Audits

The external financial statement auditor, Macias Gini and O'Connell, LLP, presented a management letter summarizing all its findings and recommendations related to the 2007 financial statement audit at the December 2007 Finance Committee meeting. Macias Gini and O'Connell will monitor these findings for satisfactory resolution. A summary of their findings is included in this agenda item in Attachment 3A – Financial Statement Audits.

Real Estate Audits

The external real estate audit firm completed 13 audits in the first half of Fiscal Year 2007/08. The most frequently reported issues are related to property managers' oversight, unallowable costs, various fees calculations, record keeping, and competitive bidding. A summary of these findings is included in this agenda item as Attachment 3A and 3B – Real Estate.

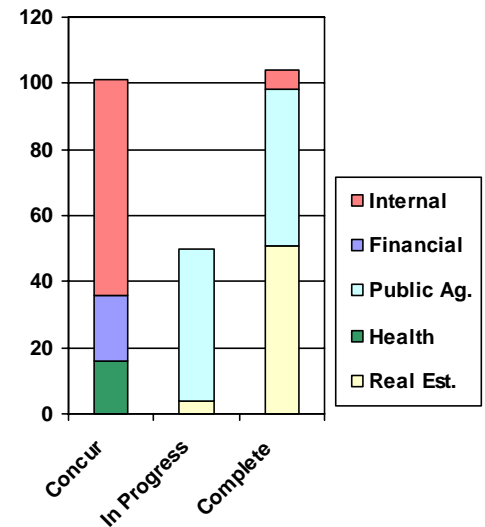
3. Findings / issues resulting from auditing work

Consistent with the Audit Resolution Policy and Procedures, the Office of Audit Services continued to work with management to resolve all outstanding issues. Management is taking satisfactory action toward this end.

A status of *Concur* indicates management has agreed with the finding and plans corrective action. *In Progress* indicates management is taking corrective action. *Complete* status indicates satisfactory resolution of the finding. *Unresolved* status indicates management does not agree with the finding or recommendation or has not taken adequate action; in such a case, the finding is referred to executive management for resolution.

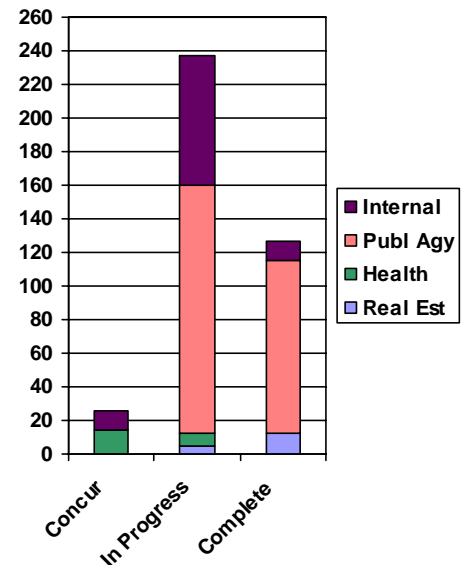
A. Findings / issues resulting from current year projects. Detail on all these findings is found on Attachment 3A of the agenda item.

Activity	Concur	In Progress	Complete	Unresolved
Internal Audits	65	0	6	0
Financial Audits	20	0	0	0
Public Agency Reviews	0	46	47	0
Health Plan	16	0	0	0
Real Estate Audits	0	4	51	0
Total	101	50	104	0



B. Findings / issues resulting from prior years' projects. Detail on all these findings is found on Attachment 3B of the agenda item.

Activity	Concur	In Progress	Complete	Unresolved
Internal Audits	12	77	12	0
Public Agency Review	0	148	103	0
Health Plan Audits	14	7	0	0
Real Estate Audits	0	5	12	0
Total	26	237	127	0



V. STRATEGIC PLAN:

This item is not a specific product of the strategic plan, but is required by the Finance Committee's Audit Resolution Policy and Procedures and the Office of Audit Services Charter.

VI. RISKS/COST:

This is an information item and does not result in any risks/costs. Staff is available to answer any questions that the Finance Committee may have.

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Office of Audit Services

Larry Jensen, Chief
Office of Audit Services

Peter H. Mixon
General Counsel